

**PUBLIC UTILITIES COMMISSION**

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**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 22-02-007:

This is the proposed decision of Administrative Law Judge Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 15, 2022 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE

Michelle Cooke

Acting Chief Administrative Law Judge

MLC:mph/sgu  
Attachment

Decision PROPOSED DECISION OF ALJ LAU (Mailed 11/7/2022)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SOUTHERN  
CALIFORNIA GAS COMPANY (U904G)  
for Authority to Establish a Memorandum  
Account for the Angeles Link Project.

Application 22-02-007

**DECISION APPROVING THE ANGELES LINK MEMORANDUM ACCOUNT  
TO RECORD PHASE ONE COSTS**

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**DECISION APPROVING THE ANGELES LINK MEMORANDUM ACCOUNT  
TO RECORD PHASE ONE COSTS****Summary**

This decision grants Southern California Gas Company (SoCalGas) the authority to establish the Angeles Link Memorandum Account to record the costs of performing Phase One feasibility studies for the Angeles Link Project, up to a cap of \$26 million with the option for an increase of up to 15 percent.

The objective of the Angeles Link Project is to develop a clean hydrogen energy transport system to serve the Los Angeles Basin. Clean hydrogen holds promise as a potential solution to decarbonize California's energy future and bring economic opportunities and new jobs to the region. Clean hydrogen is one of the only few viable carbon-free energy alternatives for the hard-to-electrify industries and the heavy-duty transportation sector in the Los Angeles Basin. The Angeles Link Project would benefit SoCalGas ratepayers who can take service of the clean hydrogen provided through such a project, and replace gas, including that supplied by the Aliso Canyon natural gas storage facility.

The Angeles Link Project also can help position California to receive federal funding through the Infrastructure Investment and Jobs Act, which is providing \$8 billion to fund the development of four regional clean hydrogen hubs. In this decision, we direct SoCalGas to join with the State in its application for the federal funding, and to study as part of Phase One, the feasibility of a localized clean hydrogen hub solution in the Los Angeles Basin.

SoCalGas is not requesting Commission approval of the Angeles Link Project or the recovery of any costs in this Application. SoCalGas may seek authority to record costs for subsequent phases in future applications.

This proceeding is closed.

## **1. Background**

Southern California Gas Company (SoCalGas) filed this Application requesting authority to establish a memorandum account to record the costs of planning a potential project, the Angeles Link project (Project). The objective of the Project is to develop a green hydrogen energy transport system to the Los Angeles Basin. According to SoCalGas, this Project would advance the State's clean energy policy objectives of decarbonization and clean air goals by bringing green hydrogen to the Los Angeles Basin as an energy source for hard to electrify industries and the heavy-duty transportation sector. SoCalGas believes the Project would replace the natural gas supplied by Aliso Canyon.

SoCalGas requests Commission authority to establish a memorandum account (Memo Account) to record the incremental costs it incurred planning the Project. According to the Application, these costs include public engagement costs (costs SoCalGas would incur to engage stakeholders in the planning process) and Project study costs (costs SoCalGas would incur for engineering, design, and environmental work to plan for the Project.) SoCalGas states that the Memo Account would enable it to record Project costs while providing customers and stakeholders with a transparent mechanism to monitor the planning development of the Project.

SoCalGas is not seeking Commission approval of the Angeles Link Project or the recovery of costs in this Application but will seek these in future filings.

### **1.1. Angeles Link Project**

SoCalGas envisions the Project to be a green hydrogen energy transport system that advances two of the State's clean energy policy goals: 1) advancing decarbonization and clean air goals by bringing green hydrogen into the Los Angeles Basin to provide hydrogen to future and current end users, including

hard-to-electrify industries, electric generation, and heavy duty transportation sector, and 2) displacing the use of natural gas in the Los Angeles Basin to facilitate the ultimate closure of the Aliso Canyon underground natural gas storage facility.

SoCalGas plans to examine a broad range of possible configurations of a green hydrogen energy transport system serving the Los Angeles Basin. The system includes one or more trunk transmission pipelines that would run from green hydrogen generation resources through the Central Valley, Mojave Desert or Blythe into one or more delivery points in the Los Angeles Basin. SoCalGas anticipates that the system would be supported by one or more compressor stations to connect to individual customers or a distribution system in the Los Angeles Basin.

#### **1.1.1. Costs and Activities**

SoCalGas proposes to record activities that are divided into three phases of costs:

Phase One (12-18 months) is estimated to cost \$26 million.

Planned activities: preliminary engineering, design, and environmental studies to study supply, demand, possible end users, pipeline configuration and storage solutions and to analyze project alternatives.

Phase Two (18-24 months) is estimated to cost \$92 million.

Planned activities: a front-end engineering and design ("FEED") study, including design, engineering, and environmental studies for the preferred pipeline system.

Phase Three (18-24 months) is estimated to cost several hundreds of millions of dollars.

Planned activities: development of a formal application for a certificate of public convenience and necessity

(CPCN) for the potential Project, and preparation of necessary permit applications.

### **1.1.2. Stakeholder Engagement**

SoCalGas plans to engage with stakeholders throughout the Project development process. Prior to filing the Application, SoCalGas began collaborating with a number of entities, including hydrogen producers, potential end users such as Los Angeles Department of Water and Power (LADWP), environmental groups, technical experts, HyDeal Los Angeles (HyDeal LA), and leading research institutions such as the University of California (UC) Irvine, UC Davis and Columbia University.

### **1.1.3. Public Interest Benefits**

SoCalGas asserts that the Project brings numerous benefits to ratepayers and is in the public interest. According to SoCalGas, these public interest benefits include reducing greenhouse gas (GHG) emissions related to natural gas use, improving regional air quality by replacing diesel combustion in heavy duty transportation, transitioning hard-to-electrify industries to green hydrogen, increasing the use of clean fuels to enhance energy system reliability, and creating jobs and economic benefits with the construction of a green energy infrastructure project.

## **1.2. Procedural History**

On February 17, 2022, SoCalGas filed this Application.

Timely protests were filed by Environmental Justice League, Air Products and Chemicals, Inc. (Air Products), Public Advocates Office (Cal Advocates), Sierra Club, Agricultural Energy Consumers Association, Indicated Shippers, Utility Consumers' Action Network (UCAN), and The Utility Reform Network (TURN). Timely responses were filed by Independent Energy Producers Association (IEPA), Coalition of California Utility Employees (CUE), California



State Pipe Trades Council (CSPTC), National Resources Defense Council (NRDC), Environmental Defense Fund (EDF), Green Hydrogen Coalition (GHC), and Bloom Energy. SoCalGas filed a timely response to the protests and responses.

The assigned Administrative Law Judge (ALJ) also issued rulings that granted party status to the Utility Workers Union of America, Locals 132 and 483 (UWUA 132 & 463), the City of Long Beach, Protect Our Communities Foundation (PCF), and Southern California Generation Coalition (SCGC).

A prehearing conference was held on April 6, 2022, during which party status was granted to Clean Energy Fuels (Clean Energy) and California Environmental Justice Alliance (CEJA).

The Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued on May 10, 2022.

SoCalGas filed and served its Opening Brief on June 29, 2022. GHC, TURN, Clean Energy, IEPA, UCAN, UWUA 132 & 483, Sierra Club, CEJA, Indicated Shippers, EDF, Bloom Energy, PCF, CUE, CSPTC, Cal Advocates, SCGC, Air Products, and NRDC filed and served Opening Briefs on July 29, 2022. City of Long Beach, Cal Advocates, TURN, Sierra Club, CEJA, Clean Energy, Indicated Shippers, Air Products, UCAN, PCF, SoCalGas, NRDC, EDF, and GHC filed and served Reply Briefs on August 15, 2022.

On September 22, 2022, the assigned ALJ issued a ruling directing SoCalGas to address additional questions. SoCalGas served and filed Responses to the ruling on September 30, 2022. UCAN, Cal Advocates, PCF, and EDF filed and served comments on SoCalGas' Responses. UCAN, SCGC, PCF filed and served reply comments on October 12, 2022.

### 1.3. Public Comments

The Commission received multiple comments from the public expressing support for the Angeles Link Project. These comments came from members of the public, and include comments from the following organizations:

- 1) EIN, which is an environmental nonprofit organization, dedicated to advancing fuel cell electric vehicle;
- 2) Mobility 21, which is a coalition of regional transportation providers, planning and business organization and community leaders in Imperial, Orange, San Bernardino, San Diego, Riverside and Ventura counties;
- 3) The California Restaurant Association, FastLinkDTLA, Harbor Association of Industry and Commerce, Industry Business Council, Inland Empire Economic Partnership, Long Beach Area Chamber, Los Angeles Area Chamber, Los Angeles County Business Federation, Orange County Business Council, San Fernando Valley Chamber, San Gabriel Valley Economic Partnership, San Pedro Chamber, Santa Clarita Valley Chamber, South Bay Associations of Chambers, Torrance Area Chamber, and Valley Industry and Commerce Association;
- 4) Harbor Trucking Association, which is a coalition of intermodal carriers serving ports on the west coast;
- 5) The Advanced Power and Energy Program at the UC Irvine;
- 6) California Hydrogen Business Council;
- 7) California Asphalt Pavement Association, which is a statewide non-profit trade association representing the asphalt pavement industry in California since 1953;
- 8) Mote, Inc., which is a technology company based in Los Angeles with the mission of removing carbon dioxide from the air and creating clean hydrogen from wood waste;
- 9) Laborers International Union of North America, the Southern California District Council, and

10)Port of Los Angeles, which asserts that the Project may deliver green hydrogen at scale in the next decade to fuel zero-emission carbon handling equipment and on-road trucks and will advance decarbonization of port market sectors such as locomotives, container shipping, and harbor craft.

## **2. Jurisdiction is Outside the Scope of this Proceeding**

Parties raised concerns about whether the hydrogen pipeline delivery services provided by the Angeles Link Project would fall within the jurisdiction of the Commission. The Scoping Memo determined that the issue of jurisdiction of hydrogen delivery services is premature and not necessary to be addressed to evaluate the request in this Application. We agree.

The Angeles Link Project is still in development and planning stages, and Project details are not yet established, and are not presented before us for consideration. Therefore, it is too premature to determine whether the Project would fall within the Commission's jurisdiction.

As determined in the Scoping Memo, the issue of jurisdiction does not necessarily need to be resolved at this time for the Commission to grant or deny the establishment of the requested Memo Account. Jurisdiction will need to be addressed if and when SoCalGas files a subsequent application seeking authority either for a CPCN for the Project or for recovery of the costs recorded in the Memo Account. SoCalGas assumes all risks that costs recorded in the Memo Account authorized by today's decision would not be recoverable if Commission jurisdiction cannot be established (*e.g.* whether the Commission has jurisdiction over hydrogen gas, whether the Project qualifies for public utility status), regardless of whether SoCalGas has made a good faith effort in establishing the Project to serve as a public utility facility.

### 3. Issues Before the Commission

The issues presented in this decision, as determined in the Scoping Memo, are:

1. Does the requested memorandum account meet the requirements the Commission has traditionally considered for approval of memorandum accounts?<sup>1</sup>
  - a. Are expenses caused by an event of an exceptional nature that is not under the Company's control?
  - b. Could the expenses not have been reasonably foreseen in the Company's last general rate case (GRC)?
  - c. Should these expenses be considered in its test year 2024 GRC?
  - d. Are the expenses of a substantial nature?
  - e. Which are the existing ratepayers, if any, who are expected to benefit from the memorandum account treatment? What are the potential benefits to existing ratepayers, if any? If no existing ratepayers will benefit from the activities/costs recorded in the memorandum account, is it reasonable to approve the application?
2. Will the establishment of the requested memorandum account create unfair market competition for nonutility companies and other parties that would stifle innovations and private investments in the developing industry of "clean hydrogen" as an alternative energy source?<sup>2</sup>
3. If the requested memorandum account meets the standards of approval, what types of costs should be and should not be recorded in the memorandum account, including but not limited to costs incurred within specified time periods, or costs incurred in certain phases of the

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<sup>1</sup> Decision (D.) 21-05-018 at 8.

<sup>2</sup> "Clean Hydrogen" is defined as hydrogen produced with a carbon intensity equal to or less than two kilograms of carbon dioxide-equivalent produced at the site of production per kilogram of hydrogen produced. *See* 42 USC 16166.

Project, costs related to certain activities, or a cap on the costs?

4. If the requested memorandum account meets the standards of approval, should the Commission require the following questions to be answered in any request for cost recovery to provide a foundation for minimal standards of reasonableness? Are there other questions not identified below that must be answered in any request for cost recovery to provide a foundation for minimal standards of reasonableness?
  - a. How did the planning process consider the impacts to disadvantaged communities and address environmental justice and affordability concerns in the development of the Project?
  - b. How did the planning process consider California environmental law and policies in the development of the Project?
  - c. How did the planning process gather and address stakeholder concerns, such as source of green hydrogen and water, and the routes of the pipelines, including any proposals from Commission's Energy Division, in the process of developing its Project?
5. Should SoCalGas share all data and analyses gathered throughout the development of the Project with the Commission, other state agencies, stakeholders, and the public? If so, how?
6. What impacts could the Application have on low income and environmental justice communities?

#### **4. Summary of Parties' Positions**

Nineteen parties filed briefs, including Opening Briefs and Reply Briefs.

#### **4.1. Parties Supporting the Angeles Link Memo Account**

Ten parties support granting the Memo Account. These parties are GHC, IEPA, Bloom Energy, CUE, CSPTC, EDF, SCGC, NRDC, UWUA 132 & 483, and the City of Long Beach.

GHC supports the Project because it will help decarbonize dispatchable electric generation, hard-to-electrify industries, and heavy-duty transportation in the Los Angeles Basin. GHC also argues that the establishment of the Angeles Link Memo Account would help California's application for federal funding to construct a regional hydrogen hub because it shows that the state is taking steps towards building a utility-scale green hydrogen project. GHC believes that the Project would provide more affordable green hydrogen in the future by having it produced at scale.

IEPA supports the Application because it allows SoCalGas to study the viability of green hydrogen and to share these results with the public. IEPA supports green hydrogen development because it is a carbon-free alternative that can replace diesel and other fuels for heavy-duty vehicles, shipping, aviation, and trains. IEPA states that its members with renewable energy facilities could provide the electricity needed to generate green hydrogen and that its members with gas-fired thermal and cogeneration facilities could use green hydrogen to reduce the carbon emissions from their facilities.

Bloom Energy asserts that hydrogen has the potential to decarbonize energy across a broad array of industries, from hard-to-decarbonize industrial heat, feedstock for low- or zero-carbon fertilizers, and low- or zero-carbon fuels to electrical generation and storage. Bloom Energy states that the Project potentially could reduce the hydrogen costs so that hydrogen is accessible to a

wide range of end-uses. Bloom Energy agrees that the Project can attract federal funding.

CUE and CSPTC filed jointly and asserted that the Project helps the state transition away from fossil gas, which would not only benefit ratepayers but also allow SoCalGas to retain its gas workers with good-paying jobs. According to CUE and CSPTC, retaining experienced gas workers ensures safety of gas infrastructure. CUE and CSPTC recommend not imposing any minimum standards of reasonableness because the memorandum account is only tracking costs.

EDF supports granting the Angeles Link Memo Account. EDF does not agree that the Angeles Link Memo Account meets all the standards set forth in the Scoping Memo, because the costs were not caused by an exceptional event beyond the utility's control. Because hydrogen is a key potential solution to California's decarbonization challenge, EDF recommends the Commission approve the account, even if it deviates from this one standard. EDF recommends limiting the Project to Phase One, with a cap of the \$26 million estimated cost, to study a limited research development pilot or a localized hydrogen hub.

SCGC asserts that the Angeles Link Memo Account benefits existing SoCalGas ratepayers because the Project could help attract federal funds from the Infrastructure Investment and Jobs Act (IIJA) to the state. SCGC contests that the Memo Account deters competition in the hydrogen industry because no other entities besides SoCalGas is contemplating a green hydrogen hub.

NRDC asserts that all ratepayers would benefit from the Project because it helps to accelerate decarbonizing California's economy. NRDC argues that the Project was necessitated by exceptional events, as climate change continues to

accelerate and public interest in affordable solutions grows more urgent. NRDC emphasizes the need for SoCalGas to maintain a robust and transparent stakeholder engagement process with a diverse group of stakeholders in developing the Project, particularly to address any impacts to low-income and environment justice communities.

UWUA 132 & 483 filed jointly and supported the Project because a clean hydrogen delivery and storage systems can help retain SoCalGas natural gas workers as the state phases out natural gas. UWUA 132 & 483 requests that SoCalGas detail how it plans to perform workforce planning and to transition the existing workforce to staff hydrogen systems. Given the significant investment needed to build out the system of pipelines, UWUA 132 & 483 also argue that green hydrogen should be a natural monopoly.

City of Long Beach discusses potential benefits the Project could bring to the Port of Long Beach. City of Long Beach argues that serving the Port's energy users with green hydrogen, the Project can help the Port of Long Beach achieve goals for zero-emission energy use.

#### **4.2. Parties Opposing the Angeles Link Memo Account**

Nine parties oppose the Angeles Link Memo Account. These parties are TURN, Clean Energy, UCAN, Sierra Club, CEJA, Indicated Shippers, PCF, Cal Advocates, and Air Products.

TURN argues that SoCalGas does not meet the requirements for establishing memorandum accounts and notes that the Project is an elective project that has not been mandated. TURN argues that establishing the Angeles Link Memo Account would obviate the cost control incentives in forecast ratemaking. As such, TURN argues that the Project expenses should be



addressed in SoCalGas' Test Year 2024 General Rate Case instead. Asserting that the beneficiaries of the Project are likely to be only non-residential utility customers, TURN argues that only these customers should pay for the Project. TURN recommends that, if the Commission approves the Angeles Link Memo Account, the Memo Account should be limited to recording only Phase One and Phase Two costs and the Commission should require SoCalGas to demonstrate that the Project would transport only green hydrogen.

Clean Energy also asserts that the Angeles Link Memo Account does not satisfy the Commission's traditional requirements for establishing memorandum accounts since neither climate change nor the federal hydrogen hub funds are exceptional events and because the project does not affect SoCalGas's ability to serve its customers. Clean Energy argues that approving the Memo Account is premature because the jurisdiction over green hydrogen delivery is not yet determined and SoCalGas has not yet been awarded federal funds for developing hydrogen hubs. Finally, Clean Energy argues that the Project would create unfair market competition because SoCalGas has access to ratepayer funds and could use eminent domain while other non-regulated utilities could not. Clean Energy recommends deferring approval of the Memo Account until the Project receives federal funding.

UCAN argues that Commission jurisdiction should be established before the Commission grant the establishment of the Angeles Link Memo Account. Furthermore, UCAN argues that climate change and the federal hydrogen hub funding are not exceptional events that warrant a memorandum account. Alternatively, if the Commission approves the memo account, UCAN recommends limiting approval to \$10 million for Phase One and \$15 million for Phase Two.

Sierra Club and the CEJA filed jointly, contesting that the Project advances decarbonization goals. If the Commission approves the Angeles Link Memo Account, Sierra Club/CEJA recommend that the Commission prevent having SoCalGas' methane customers unfairly cross subsidize the Angeles Link Project. Sierra Club/CEJA also emphasize the need to clarify the definition of green hydrogen and recommend that the Angeles Link Project carry only 100% green hydrogen and be prohibited from combusting hydrogen to generate electricity or blending hydrogen into methane pipelines.

Indicated Shippers also argues that the Project does not satisfy the criteria for approval because climate change, the federal hydrogen hubs funding, and HyDeal Los Angeles are not exceptional events. Indicated Shippers proposes that if the Commission approves the Memo Account, approval should be deferred until after the Project has obtained federal funding and costs should be limited to Phase One costs and capped at the level of the federal funding.

PCF also agrees that the Angeles Link Memo Account does not meet the standards for approval and should be denied. PCF argues that expenses were not caused by an exceptional event outside of SoCalGas' control. PCF also asserts that, given the high costs of hydrogen, hard-to-electrify industries will choose electrification and heavy-duty transportation will switch to other electric alternatives over hydrogen gas.

Cal Advocates recommends denying the Angeles Link Memo Account because it fails to satisfy the Commission's test for memorandum account treatment. Cal Advocates remains concerned that the Commission deferred the issue of jurisdiction. Cal Advocates recommends that the Commission determine jurisdictional questions about hydrogen before allowing SoCalGas to record costs. If the Commission approves the Angeles Link Memo Account, Cal

Advocates recommends limiting approval to Phase One activities and capping costs at \$26 million.

Air Products argues that the Angeles Link Memo Account fails to meet the requirements for memorandum account treatment, specifically that SoCalGas fails to establish that costs were caused by exceptional events outside of SoCalGas' control and that existing ratepayers benefit from the Angeles Link Project. More importantly, Air Products argues that granting the Angeles Link Memo Account would deter private investments and stifle innovation in a developing clean hydrogen industry by sending multiple market-distorting signals. Air Products states that the Commission has had a consistent policy of encouraging competition and discouraging regulated utilities from entering markets for new technologies or competitive markets absent explicit legislative mandates, evidence of market failures or clear limitations that ensure utilities will not gain an unfair competitive advantage.

**5. Establishing the Angeles Link Memo Account is Reasonable.**

The Angeles Link Memo Account is granted for the purpose of allowing SoCalGas to record the costs of activities performed in Phase One of the Angeles Link Project up to a cap of \$26 million, with the possibility for an increase of up to 15 percent, as discussed below. In Phase One, SoCalGas should conduct feasibility studies for the Angeles Link Project to develop a clean hydrogen energy transport system serving the Los Angeles Basin. SoCalGas should also study the feasibility of a localized clean hydrogen hub solution in the Los Angeles Basin with hydrogen generation and end users in close proximity.

The Project has the potential to bring public interest benefits to the state, and especially the Los Angeles area, because clean hydrogen holds promise to

decarbonize the state and the Los Angeles Basin's energy future and bring economic opportunities and new jobs to the region. Because of these potential public interest benefits, the confluence of current events, including recent federal legislation, regional initiatives, and local interests, it serves the public interest for SoCalGas to perform feasibility studies of the Project immediately.

The Angeles Link Memo Account, however, does not meet all the requirements the Commission has traditionally used to approve memorandum accounts. We make an exception and grant the Memo Account, as conditioned, because of the significant potential public interest benefits delineated in this decision.

Furthermore, the Angeles Link Memo Account may offer benefits to ratepayers who can potentially take service of the clean hydrogen provided through the Project. Although the Angeles Link Memo Account, as a mechanism that allows SoCalGas to record costs, will not directly impact disadvantaged and environmental justice communities, active stakeholder engagement as part of the Project's development process will address any potential impacts the Project may have on these communities. Finally, establishing the Memo Account to record Phase One feasibility studies does not impede market competition in the developing clean hydrogen industry.

For these reasons, as discussed more fully below, we find that granting the Angeles Link Memo Account to record the costs of Phase One feasibility studies of the Project is reasonable.

#### **5.1. The Commission Sets General Standards to Evaluate Memorandum Account Approvals**

The Commission typically reviews the merits of a memorandum account under a set of criteria that are set forth in the Commission's Standard Practice U-

27-W. Specifically, the criteria for approval are 1) whether the expenses are caused by an exceptional event that is unforeseen and outside of the control of the utility, 2) whether the expenses could not have been included in the general rate case (GRC) forecast, 3) whether the costs will occur before the utility's next general rate case, 4) whether the expenses are substantial, and 5) whether ratepayers benefit by the memorandum account treatment?<sup>3</sup>

The Commission established Standard Practice U-27-W as general guidance for the water industry. While Standard Practice U-27-W provides general guidance for approval of memorandum accounts, we nonetheless have discretion to approve a memorandum account that meet some or all of the criteria. EDF argues that while the Angeles Link Memo Account does not meet all the criteria set out in Standard Practice U-27-W, the Memo Account should be approved based on the ratepayer benefits that may be realized from the role that hydrogen may potentially play in decarbonizing California's energy supply, with conditions and limitations imposed on the account.<sup>4</sup>

Besides the requirement that expenses are caused by an exceptional event, the Angeles Link Memo Account meets all the other criteria for memorandum account approval.

## **5.2. The Angeles Link Project Is Not Caused by An Exceptional Event**

The first requirement in Standard Practice U-27-W is whether the expenses are caused by an exceptional event that is unforeseen and outside of the control of the utility.

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<sup>3</sup> Assigned Commissioner's Scoping Memo and Ruling at 3-4; Standard Practice U-27-W at 6.

<sup>4</sup> EDF Opening Brief at 22-23.

SoCalGas argues that a collection of events, specifically accelerating climate change, newly available federal funding for regional hydrogen hubs, regional initiatives such as HyDeal LA, and local interests and demand such as the LADWP RFI, altogether qualify as an exceptional event that is beyond its control.<sup>5</sup> CUE/CSPTC, SCGC, and NRDC agree with SoCalGas.<sup>6</sup>

Clean Energy, UCAN, TURN, Sierra Club, CEJA, PCF, Indicated Shippers, EDF and Air Products refute SoCalGas' arguments and argue that these events do not fit the definition of an exceptional and unforeseen event that is outside a utility's control.<sup>7</sup> They argue that climate change is an ongoing global environmental change that has evolved over decades and is neither an unforeseen or sudden event, and that the federal funding, regional initiatives, and local interests are business opportunities that SoCalGas elected to pursue.<sup>8</sup> UCAN urges the Commission to not set a precedent of accepting climate change as an exceptional event, warning the Commission that doing so would encourage more unmerited requests for memorandum accounts.<sup>9</sup>

We find that the collection of events SoCalGas presented are strong reasons to pursue the feasibility studies, but they do not qualify as events of exceptional nature as defined by our traditional standards for approving memorandum accounts. As some of the parties argued, climate change is not an unforeseen event even though it is an exceptional ongoing concern. In addition,

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<sup>5</sup> SoCalGas Opening Brief at 17-24; SoCalGas Reply Brief at 7.

<sup>6</sup> CUE/CSPTC at 5-6; SCGC at 7-8; NRDC at 3.

<sup>7</sup> Sierra Club/CEJA at 5-8; Clean Energy at 6-9; UCAN Opening Brief at 5; UCAN Reply Brief at 5-8; PCF Opening Brief at 1-2; TURN Opening Brief at 6-10; Indicated Shippers Opening Brief at 5-8; EDF Opening Brief at 24; Air Products Opening Brief at 11-12.

<sup>8</sup> Sierra Club/CEJA at 5-8.

<sup>9</sup> UCAN Reply Brief at 6-7.

the federal funding opportunities, the HyDeal LA initiatives, and the LADWP RFI are business opportunities that SoCalGas may voluntarily elect to pursue and are within SoCalGas' control.

### **5.3. Establishment of an Angeles Link Memo Account Should Not Be Considered in the GRC**

We find that the costs of the Angeles Link Project, and therefore the Angeles Link Memo Account, could not have been included in SoCalGas' previous GRC for test year 2019 and should not be included in its current GRC for test year 2024. As such, the Angeles Link Memo Account is appropriately reviewed and approved in a standalone proceeding such as this one.

SoCalGas explains that it could not have included the Project in its previous 2019 GRC because it filed the 2019 GRC four years ago and was not contemplating the Project at the time.

As for its current GRC for test year 2024, SoCalGas argues that, given the scope and nature of the Project, it should be examined in a separate proceeding rather than in a GRC. SoCalGas states, "the unique nature and scope of this proposal lends itself to a stand-alone proceeding that maximizes opportunity for stakeholder input and involvement."<sup>10</sup> SoCalGas asserts that the Project, particularly given the magnitude of the request, should be examined in a proceeding separate from the GRC so that it receives more individual attention from staff, parties, and the public. Furthermore, SoCalGas argues that the Project needs to begin now, given recent federal funding opportunities, regional initiatives and local interests, and not be delayed by a protracted GRC process in which a Commission decision may not be issued until late 2023 at the earliest.<sup>11</sup>

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<sup>10</sup> SoCalGas Opening Brief at 27.

<sup>11</sup> SoCalGas Opening Brief at 26-27.

Lastly, SoCalGas argues that it would not have been able to forecast costs of the Project for the timeframe considered in the GRC cycle, from 2024 through 2028, since the costs and activities for each phase of the Project depend on the studies and developments from the preceding phase.

Parties are split on this issue. NRDC, EDF, UCAN, CUE, Sierra Club, and CEJA agree that the Angeles Link Project should be considered in its own proceeding and not the GRC.<sup>12</sup> TURN, Cal Advocates, Indicated Shippers, and Clean Energy argue that SoCalGas could have forecasted Project costs and should have included them in its 2024 GRC.<sup>13</sup>

We find it appropriate that SoCalGas sought Commission approval now in this Application instead of in SoCalGas' 2019 or 2024 GRC. The unique policy and timing considerations warrant a stand-alone proceeding such as this one. Specifically, consideration in this Application will allow for a more focused and timely review of the underlying policy issues than is possible in a lengthy and multi-faceted GRC that is typically focused on establishing an appropriate revenue requirement to allow the utility to operate and maintain safe and reliable service of its existing product, which is natural gas. We have received briefs from 20 intervening parties representing various interests and public comments from about 24 organizations specifically on the Angeles Link Memo Account requested in this Application. This significant interest on the Project demonstrates that separate treatment for the Project is appropriate.

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<sup>12</sup> NRDC Opening Brief at 3; EDF Opening Brief at 24, UCAN Opening Brief at 6, CUE Opening Brief 2-3, Sierra Club/CEJA Opening Brief at 9-11.

<sup>13</sup> TURN Opening Brief at 10-12; Cal Advocates Opening Brief at 15-18; Indicated Shippers Opening Brief at 15-20; Clean Energy Opening Brief at 14-16.



Finally, at this early stage of the Project in which the feasibility study has not been conducted and when many of the project details are undetermined, it would have been challenging for SoCalGas to accurately forecast expenses two to six years from now, from 2024 to 2028, the forecast time frame considered in the 2024 GRC. As SoCalGas explains, the development from each phase of the Project should determine and inform the forecast of costs and activities for the next phase of the Project. The approach approved in this decision, in which we authorize recording Phase One costs and then review the results of the Phase One studies before allowing SoCalGas to record costs of the next phase, follows this logic, better protects ratepayers and is preferable.

Moreover, approving the Project in a GRC commits recovery of the forecasted costs from across all SoCalGas ratepayers. As SoCalGas notes, “including (the Project) costs in the GRC would present the Commission with the challenge of deciding which current ratepayers should be responsible for recovery of those forecast costs.”<sup>14</sup> Sierra Club and CEJA also recognize that including the Project in a GRC would oblige SoCalGas’ gas customers to bear the costs of the Project.<sup>15</sup> However, not all ratepayers may benefit from the Project and the Angeles Link Memo Account treatment. Under the cost causation principle, rate recovery from all ratepayers would not be appropriate.<sup>16</sup> As discussed elsewhere in the decision, only the set of ratepayers who can potentially take service of clean hydrogen from the Project benefits from the Angeles Link Memo Account.

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<sup>14</sup> SoCalGas Reply Brief at 11.

<sup>15</sup> Sierra Club/CEJA Opening Brief at 9.

<sup>16</sup> D.14-06-029 at 12.

For the reasons discussed above, we find that the Angeles Link Memo Account is appropriately reviewed and approved in a standalone proceeding such as this one and not in SoCalGas' 2024 GRC.

#### **5.4. Costs are Substantial and Not Speculative**

SoCalGas' estimated \$26 million Phase One budget is substantial and not speculative.

SoCalGas states that the costs it requests to record in the Angeles Link Memo Account are substantial. Parties agree, particularly when they consider the total costs SoCalGas estimated for Phases One, Two, and Three.<sup>17</sup> Although this decision limits the allowable costs to be recorded to Phase One activities, the amount of allowable costs to be recorded, which could be as high as \$26 million, is still substantial.

Although parties do not dispute that costs are substantial, some parties argue that costs are speculative. Clean Energy and Indicated Shippers assert that Project expenses are not only speculative because of the many uncertainties about the Project, but also discretionary because the Project was an elective project that SoCalGas chose to pursue.<sup>18</sup> Indicated Shippers argues that costs are speculative because of the lack of detailed hydrogen market data, incentives to control costs, and the high costs of hydrogen.<sup>19</sup>

We do not find SoCalGas' Phase One costs to be speculative. In its Opening Brief, SoCalGas provides specific tasks, activities, and goals it plans to

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<sup>17</sup> Sierra Club/CEJA Opening Brief at 11; UCAN Opening Brief at 6; Clean Energy Opening Brief at 21; Indicated Shippers Opening Brief at 20-24; EDF Opening Brief at 25; CUE Opening Brief at 4; Cal Advocates Opening Brief at 19; SCGC Opening Brief at 8; NRDC Opening Brief at 3.

<sup>18</sup> Clean Energy Opening Brief at 21; Indicated Shippers Opening Brief at 20-24.

<sup>19</sup> Indicated Shippers Opening Brief at 20-24.

accomplish in Phase One, *e.g.* assessment of demand, identification of end users, economic analysis, stakeholder meetings, identification of safety and reliability requirements.<sup>20</sup> Because Phase One tasks and activities are defined, Phase One costs are not speculative. The intervenors' arguments pertain more to the speculative nature of the Project itself (*e.g.* project uncertainties, hydrogen demand, etc.). The costs allowed to be recorded in the Angeles Link Memo Account, however, are limited to defined Phase One activities and are not speculative.

Some intervenors express concern that, because of the substantial amount of costs recorded, it creates a "regulatory inertia" for the Commission to approve the costs for recovery, particularly since denying a substantial amount of costs may lead to negative impacts on the utility's credit ratings.<sup>21</sup> It is well understood that authorization of a memorandum account does not guarantee recovery. As SoCalGas puts it, "(g)ranting a memorandum account does not 'prejudge whether, how, and to what extent (a utility) may recover the costs tracked in the (memorandum account).'"<sup>22</sup>

#### **5.5. The Angeles Link Memo Account Benefits Ratepayers Who Can Potentially Take Service from the Angeles Link Project**

The Angeles Link Memo Account may benefit ratepayers who can potentially take service of the clean hydrogen provided by the Project. The Memo Account enables SoCalGas to record the costs of studying the feasibility of the Project which, if constructed, would offer them a clean energy alternative.

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<sup>20</sup> SoCalGas Opening Brief, Appendix A, A-1 to A-2.

<sup>21</sup> TURN Opening Brief at 6; UCAN Protest at 5.

<sup>22</sup> SoCalGas Opening Brief at 43.

According to SoCalGas, clean hydrogen is expected to be a preferred solution for many existing ratepayers, specifically those in hard-to-electrify sectors,<sup>23</sup> heavy duty transportation, and dispatchable power to support reliability. Based on existing customer data and initial research on hydrogen fuel-switching capabilities, SoCalGas estimates that as much as 50% of its current retail non-core customers may potentially take service of clean hydrogen as a substitute for natural gas.<sup>24</sup> In addition to these non-core customers, SoCalGas believes that some core industrial customers and core natural gas vehicle customers may also potentially transition to clean hydrogen and take service from the Project.

EDF, UCAN, PCF, and Cal Advocates criticize as inaccurate the estimated customer numbers SoCalGas provided. EDF and UCAN asserts that those numbers are speculative.<sup>25</sup> According to UCAN, actual customer adoption numbers will need to change depending on the technological capabilities for hydrogen conversion at the time of implementation. Cal Advocates argues that the estimates are not substantiated by evidence.<sup>26</sup> PCF asserts that the actual number of customers taking service most likely will be less because of the

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<sup>23</sup> According to SoCalGas, existing ratepayers that are in hard-to-electrify sectors are Electric Generation (end-use is 100% noncore), Commercial (end-use is 21% noncore and 79% core), Industrial (end-use is 87% noncore and 13% core), and natural gas vehicle (end-use is 100% core) categories, as well as the non-residential portion of SoCalGas's Wholesale category (for example, local municipalities and other gas companies served by SoCalGas). *See* SoCalGas Responses to September 22, 2022 Administrative Law Judge Email Ruling Directing Applicant to Address Questions at 2.

<sup>24</sup> SoCalGas Responses to September 22, 2022 ALJ Email Ruling at 3-4; SoCalGas Reply to Comments on SoCalGas Responses at 4

<sup>25</sup> EDF Opening Comments on SoCalGas Responses at 3; UCAN Opening Comments on SoCalGas Responses at 2-3;

<sup>26</sup> Cal Advocates Opening Comments on SoCalGas Responses at 3-4.

technological re-engineering needed to use hydrogen and the higher cost of green hydrogen compared to other alternatives.<sup>27</sup> PCF specifically contests SoCalGas's estimate for heavy duty transportation, arguing that 96% of the medium and heavy-duty transportation would electrify rather than transition to clean hydrogen.<sup>28</sup>

In response, SoCalGas states that the feasibility studies it plans to conduct in Phase One will analyze with greater precision the amount of demand, end-uses, and the ratepayers who will take service from the Angeles Link Project. SoCalGas also clarifies that the customer numbers it provided were estimated based on current customer data and hydrogen fuel-switching technologies.<sup>29</sup>

The September 22, 2022, ALJ Ruling directed SoCalGas to provide estimates for the number of ratepayers who could potentially take service of clean hydrogen. We are satisfied with the response for the purpose of authorizing the Memo Account for Phase One activities given the information currently available. SoCalGas estimates that as many as 50% of its current retail non-core customers may potentially take service, which is a significant portion. While we appreciate the parties' interest in challenging SoCalGas estimates, it is not within the scope of this proceeding to examine in great detail the feasibility of clean hydrogen deployment, which is the purpose of Phase One.

**6. Granting the Angeles Link Memo Account Serves the Public Interest**

Granting the Angeles Link Memo Account to record costs of Phase One feasibility studies can benefit ratepayers and serves the public interest. The

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<sup>27</sup> PCF Opening Comments on SoCalGas Responses at 4-5.

<sup>28</sup> PCF Opening Comments on SoCalGas Responses at 4.

<sup>29</sup> SoCalGas Reply Comments on SoCalGas Responses at 9-10.

Project has the potential to help decarbonize the state's and the Los Angeles Basin's energy use and position the State for federal funding. For these reasons explained in greater detail below, we find that granting the Memo Account to allow SoCalGas to begin Phase One feasibility studies immediately and record those costs serves the public interest.

**6.1. The Angeles Link Project Could Potentially Help Decarbonize the State's and Los Angeles Basin's Energy Use**

SoCalGas proposes that the Project can help decarbonize the state's and the Los Angeles Basin's energy use by providing a clean energy alternative to hard-to-electrify industries, electric generation, and the heavy-duty transportation sector, and by decreasing the reliance on natural gas in the Los Angeles Basin in light of the state's intent to close the Aliso Canyon underground natural gas storage facility.<sup>30</sup>

Providing a number of studies as support, SoCalGas argues that clean hydrogen is the one of the only few viable carbon-free energy alternative for hard-to-electrify industries, electric generation, and the heavy-duty transportation sector.<sup>31</sup>

Many of the intervening parties in this proceeding agree that hydrogen is a potential solution to decarbonization and investing in hydrogen will bring societal benefits.<sup>32</sup> NRDC, for example, argues that investing in hydrogen

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<sup>30</sup> Application at 2.

<sup>31</sup> SoCalGas Opening Brief at 8.

<sup>32</sup> GHC Opening Brief at 4-6; IEPA Opening Brief at 2-3; UWUA 132 & 483 Opening Brief at 15; CUE/CSPTC Opening Brief at 6-8 and 10-11, SCGC Opening Brief at 9; City of Long Beach at 3; Air Products Opening Brief at 4 and 7, Bloom Energy Opening Brief at 1-3. NRDC Opening Brief at 1.

solutions is in the public interest and is urgently needed.<sup>33</sup> Some intervenors, however, are skeptical and raise concerns that, because of hydrogen leaking issues and nitrogen oxide (NOx) emissions resulting from hydrogen usage in power generation, a hydrogen industry may possibly do more harm to climate change than the promised environmental benefits.<sup>34</sup>

The findings from numerous studies demonstrate that clean hydrogen is a key potential solution to decarbonize the state's and the Los Angeles Basin's energy use because it is one of the only few viable carbon-free energy alternatives for hard-to-electrify industries, electric generation, and the heavy-duty transportation sector. Because of clean hydrogen's potential, we find the Project has the potential to decarbonize the state's and the Los Angeles Basin's energy use and that a feasibility study for the Project is in the public interest.

In addressing the concerns parties raised, SoCalGas is directed to submit findings and analyses regarding hydrogen leakage issues and NOx emissions from the Phase One feasibility studies prior to receiving authority to record Phase Two costs. We discuss this directive in Section 11 below.

## **6.2. The Angeles Link Project Could Potentially Bring Hydrogen to Scale, Lower Costs of Hydrogen, and Create Economic Opportunities and New Jobs**

SoCalGas argues that the Project benefits the public interest by being able to deliver green hydrogen at large-scale given its utility-scaled operations. SoCalGas points to a Governor's report on "California's Electricity System of the Future," which finds that more investment in clean hydrogen could lead to a

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<sup>33</sup> NRDC Opening Brief at 3.

<sup>34</sup> TURN Opening Brief at 14-17, UCAN Opening Brief at 11, Sierra Club/CEJA Opening Brief at 2-4, 12, EDF Opening Brief at 3, 6-12, PCF Opening Brief at 2-29, Cal Advocates Opening Brief at 3-8.

rapid decline in the costs of hydrogen, similar to what occurred in the solar and battery energy storage industries.<sup>35</sup> In addition, the federal government, according to SoCalGas, desires to bring hydrogen at scale through providing \$8 billion of IIJA funding to build large-scale hydrogen hubs.<sup>36</sup> Increasing investments in clean hydrogen can help bring hydrogen to scale and, as a result, lower the costs of hydrogen.

In addition, SoCalGas argues that investing in and constructing the Project creates new jobs and brings economic benefits. SoCalGas points to the U.S. Department of Energy, which when launching the IIJA funding program, highlighted the economic opportunities and new jobs created through the funding.<sup>37</sup> UWUA 132 & 483 and CUE agree that the Angles Link Project will create high-paying jobs for gas workers whose livelihoods are being phased out as the state transitions away from natural gas uses.<sup>38</sup>

While no project is before us now, we agree that initiating the feasibility studies, which is a predicate to the Angeles Link Project, serves the public interest by supporting the opportunity to bring hydrogen at scale, thus lowering the cost of hydrogen and creating economic opportunities and new jobs.

### **6.3. SoCalGas' Commitment to Stakeholder Engagement and Sharing Results of its Phase One Studies is in the Public Interest**

As part of the Project, SoCalGas plans to establish a Planning Advisory Group to engage with stakeholders to receive technical advice and to collaborate

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<sup>35</sup> Application at 10.

<sup>36</sup> SoCalGas Opening Brief at 40.

<sup>37</sup> SoCalGas Opening Brief at 40.

<sup>38</sup> UWUA 132 and 483 Opening Brief at 15; CUE Opening Brief at 9-10.



on Project design and development.<sup>39</sup> The stakeholders SoCalGas plans to invite include government entities, environmental justice nonprofits, environmental nonprofits, labor groups, industry, academia, and ratepayer advocates. Through the Planning Advisory Group, SoCalGas plans to coordinate with stakeholders on hydrogen market issues, technical issues, environmental impacts, and environmental justice issues. SoCalGas' commitment to engage and consult with stakeholders representing a diverse set of interests ensures that all interests affected by the Project are considered in the planning process.

SoCalGas is committed to sharing information developed in Phase One with the Planning Advisory Group, even if Phase One studies show that the Project is not feasible.<sup>40</sup> SoCalGas believes this information will support the development of the green hydrogen economy which is beyond the Project. In addition, SoCalGas asserts that the extensive stakeholder engagement will provide transparency of its Phase One planning process and feasibility studies.

Parties support the stakeholder coordination and engagement process, and agree that information SoCalGas provides on the results of its Phase One studies will benefit the development of the clean hydrogen industry.<sup>41</sup> None of the parties contest the benefits of the SoCalGas' proposed stakeholder engagement through its Planning Advisory Group.

We find that SoCalGas' commitment to actively engage and consult with stakeholders on the Phase One feasibility studies and to share its Phase One

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<sup>39</sup> Application at 29.

<sup>40</sup> SoCalGas Opening Brief at 54-56.

<sup>41</sup> UCAN Opening Brief at 16; UWUA Opening Brief at 4 and 12-15; NRDC Opening Brief at 6-8; GHC Opening Brief at 1 and 6; IEPA Opening Brief at 3-4; UWUA Opening Brief at 3; CUE Opening Brief at 8; SCGC Opening Brief at 8-9; NRDC Opening Brief at 1 and 3.

results serve the public interest. Active engagement with stakeholders is in the public interest because it not only provides transparency of the studies and processes SoCalGas will be conducting in Phase One, but also allows groups representing various social or environmental interests to give input in SoCalGas' planning and studies. Furthermore, the data and analyses that SoCalGas plans to share with stakeholders resulting from its Phase One studies will be beneficial to the development of the clean hydrogen industry.

**6.4. Given Current Events, Conducting Feasibility Studies of the Project Immediately Serves the Public Interest**

A confluence of current events, including recent federal statute, regional initiatives, and local interests, favors SoCalGas to begin studying the feasibility of the Project immediately.<sup>42</sup>

At the federal level, SoCalGas discusses two recent federal statutes. The first statute is the IIJA, which, passed in November 2021, provides \$8 billion dollars in funding for four regional clean hydrogen hubs. The State of California will be bidding for the IIJA funding under one portfolio or projects on behalf of the various project managers.<sup>43</sup> SoCalGas maintains that the Project, as a project aiming to deliver clean hydrogen to the Los Angeles Basin, will help position California to secure these federal funds, which will help offset some of the costs for the Project.<sup>44</sup> The second statute is the Inflation Reduction Act. The Inflation Reduction Act, passed in August 2022, creates a Production Tax Credit for clean hydrogen produced after December 31, 2022.<sup>45</sup> SoCalGas states that the Inflation

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<sup>42</sup> SoCalGas Reply Brief at 7.

<sup>43</sup> SCGC Opening Brief at 5; TURN Opening Brief at 12-13.

<sup>44</sup> SoCalGas Opening Brief at 17.

<sup>45</sup> SoCalGas Reply Brief at 15-17.

Reduction Act will decrease the overall production costs of clean hydrogen, making clean hydrogen more affordable and the need for a clean hydrogen energy transport system in the immediate future more important.<sup>46</sup>

At the regional level, SoCalGas discusses HyDeal LA, which is a regional initiative between SoCalGas, GHC, and LADWP and other entities to develop a hydrogen hub in the Los Angeles Basin. HyDeal LA's primary objective is to achieve hydrogen delivery in the Los Angeles Basin at prices under \$1.50 per kilogram by 2030. HyDeal LA has identified green hydrogen as a potential solution to transition the Ports of Los Angeles and Port of Long Beach away from using diesel and gas.

At the local level, SoCalGas identifies local demand and interest for clean hydrogen. LADWP, the largest municipally-owned utility in the country, issued a request for information (LADWP RFI) in August 2021 to seek information on pathways to deliver green hydrogen into the Los Angeles Basin.<sup>47</sup> LADWP estimates a need for up to 5,765 tons of hydrogen per year for its Harbor, Haynes, Scattergood, and Valley generating stations by 2035, and 67,817 tons of hydrogen per year by 2045.

Some parties agree with the opportunities brought forth by the recent federal legislation, regional initiatives, and local demand.<sup>48</sup> They agree that the pursuit of the Project could help position California to receive the federal

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<sup>46</sup> *Ibid.*

<sup>47</sup> SoCalGas Opening Brief at 25.

<sup>48</sup> UWUA Opening Brief at 10-11; SCGC Opening Brief at 1-4; GHC at 2-6;

hydrogen hubs funding.<sup>49</sup> Some, however, question whether the Project will be part of the state's portfolio to bid for the federal hydrogen hubs funding.<sup>50</sup>

With the confluence of these current events, the public interest is served if SoCalGas begins conducting a feasibility study of the Project immediately. There are currently substantial regional and local interests in developing and creating pathways to provide hydrogen as an alternative clean energy source in the Los Angeles Basin.

Because of the importance of the federal funding opportunity to the public interest, we require SoCalGas to join with the State of California in its application for the federal funding provided through the IIJA prior to receiving authority to record any Phase Two costs, as discussed in more detail later in Section 11.

**7. Granting the Memo Account for Phase One Activities Does Not Impede Competition in the Hydrogen Industry**

Some intervenors assert that approval of the Angeles Link Memo Account would impede market competition in a developing hydrogen industry. Air Products assert that approval of the Angeles Link Memo Account would deter private investment and stifle innovation in the developing clean hydrogen industry by sending market signals that distort the market.<sup>51</sup> Sierra Club, CEJA, UCAN, Indicated Shippers, Cal Advocates, and Clean Energy agree with Air

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<sup>49</sup> GHC Opening Brief at 8; Bloom Energy Opening Brief at 2; SCGC Opening Brief at 5-8.

<sup>50</sup> Air Products Opening Brief at 6, 11, 22; TURN Opening Brief at 12-14; Clean Energy Opening Brief at 16, 19-20; UCAN Opening Brief at 6; UWUA Opening Brief at 10; Indicated Shippers Opening Brief at 7-11; EDF Opening Brief at 14-16; PCF Opening Brief at 2; Cal Advocates Opening Brief at 15.

<sup>51</sup> Air Products Opening Brief at 25-30.

Products.<sup>52</sup> UCAN, Indicated Shippers, and Clean Energy argue that approving the Memo Account gives SoCalGas an unfair advantage over other market actors, because SoCalGas can recover the costs from its natural gas ratepayers and can use eminent domain and condemnation rights that nonregulated companies do not have.<sup>53</sup>

In contrast, SoCalGas argues that approving the Memo Account will not undermine market competition, but rather help develop the emerging green hydrogen industry with the results and findings of the feasibility studies it will conduct.<sup>54</sup> SoCalGas also notes that the memorandum account only allows SoCalGas to record costs and does not guarantee recovery.<sup>55</sup>

SCGC, NRDC, UWUA and CUE agree with SoCalGas. SCGC states that no other entity besides SoCalGas is contemplating a green hydrogen hub in the Los Angeles region.<sup>56</sup> UWUA 132 and 483 argue that green hydrogen should be a natural monopoly given the significant investment needed to build a system of pipelines.<sup>57</sup> Like SoCalGas, CUE and NRDC assert that a memorandum account does not affect competition because the memorandum account only allows SoCalGas to record costs.<sup>58</sup> CUE also agrees that the data provided through

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<sup>52</sup> Sierra Club/CEJA Opening Brief at 16-17; UCAN Opening Brief at 9-11; Indicated Shippers Opening Brief at 29-33; Cal Advocates Opening Brief at 24-25; and Clean Energy Opening Brief at 26-31.

<sup>53</sup> *Ibid.*

<sup>54</sup> SoCalGas Opening Brief at 37-44.

<sup>55</sup> *Ibid.*

<sup>56</sup> SCGC Opening Brief at 9.

<sup>57</sup> UWUA 132 and 483 Opening Brief at 11-12.

<sup>58</sup> CUE Opening Brief at 11-12; NRDC Opening Brief at 3.

SoCalGas' feasibility studies will help the industry by making publicly available findings that can help other entities develop related hydrogen products.

We find that granting the Angeles Link Memo Account does not undermine market competition in the currently developing hydrogen industry because the memorandum account only allows SoCalGas to record Phase One costs to conduct feasibility studies of the Project. To the contrary, as SoCalGas argues, because its results will be public, the feasibility study has the potential to foster competition in the emerging hydrogen industry. Furthermore, even though cost recovery issues will not be determined until SoCalGas seeks cost recovery, we determine, as discussed elsewhere in the decision, that the beneficiaries of the Phase One activities are the current and future ratepayers who can potentially take service from the Project, and that the Commission has adopted a cost causation policy in which only ratepayers who benefit from the funded activities should pay for the costs.<sup>59</sup> These specifications limit any significant risk that cross-subsidy of costs would give SoCalGas unfair market advantage. For these reasons, we find that approving the Memo Account to record Phase One costs will not undermine market competition in the clean hydrogen industry.

#### **8. Impacts to Disadvantaged and Environmental Justice Communities**

SoCalGas asserts that the Memo Account, which is a mechanism to record costs, will not directly affect low income and environmental justice communities. But because the Project can replace carbon-emitting fuels with clean hydrogen gas, SoCalGas believes that Angeles Link Project can potentially benefit

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<sup>59</sup> D.14-06-029 at 12.

vulnerable and disadvantaged communities which are disproportionately impacted by higher carbon emissions and emission-related health impacts.<sup>60</sup>

Intervenors are particularly concerned about the Project's potential environmental impacts to disadvantaged and environmental justice communities. They question whether the Project will further increase pollution in these communities through hydrogen leaking from pipelines and NOx emissions from using hydrogen in industrial facilities and electric generation, and whether the Project will divert scarce water resources from local communities to produce hydrogen.<sup>61</sup>

At this early stage of the Project, active stakeholder engagement is beneficial because it can help identify and address potential impacts of the Project on disadvantaged and environmental justice communities. Therefore, as discussed in more detail below, we direct SoCalGas to engage with disadvantaged and environmental justice communities through the stakeholder engagement process at least on a quarterly basis to address any potential impacts the Project has on these communities. If designed with appropriate mitigation measures, the Angeles Link Project could potentially lower emissions and help improve health impacts in these communities.

## **9. Specifying Authorized Phase One Activities**

As set forth in the Scoping Memo, the third issue to be determined is:

If the requested memorandum account meets the standards of approval, what types of costs should be and should not be recorded in the memorandum account, including but not limited to costs incurred within specified time periods, or costs incurred in certain phases of the

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<sup>60</sup> SoCalGas Opening Brief at 56-60.

<sup>61</sup> Sierra Club/CEJA Opening Brief at 29-36; UCAN Opening Brief at 14-15; EDF Opening Brief at 30; NRDC Opening Brief at 7-9.

Project, costs related to certain activities, or a cap on the costs?

SoCalGas opposes any additional limitations or exclusions, arguing that the Angeles Link Memo Account, as proposed, has appropriate limits, restricting costs to those that are incremental, substantial, and not speculative.<sup>62</sup>

Intervening parties, however, propose that the Commission impose a number of limitations and conditions, including specifying the type of “green” hydrogen gas that the Angeles Link system may carry, limiting costs to certain phases of the Project, prohibiting recovery of public outreach and public relations costs, as well as many other issues relating to the activities SoCalGas should or should not pursue for the Project.

We find it reasonable to impose some of the proposed conditions on the costs that may be recorded in the Angeles Link Memo Account. As the Angeles Link Project is in the conceptual stage, parties appropriately raise concerns over how the Project would be developed and whether the Project would deliver the promised decarbonization and clean energy benefits. For these reasons, it is appropriate to set additional conditions on the costs that may be recorded in the Angeles Link Memo Account to provide an extra layer of ratepayer protection and to ensure that the Project aligns with the State’s decarbonization and clean energy goals.

We adopt the following conditions on the costs that SoCalGas may record in the Angeles Link Memo Account:

- 1) The Angeles Link Memo Account shall have a cap of \$26 million and shall only record the costs of Phase One activities;

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<sup>62</sup> SoCalGas Opening Brief at 44-48.



- 2) The Angeles Link Project may only carry clean hydrogen;
- 3) SoCalGas must additionally study the feasibility of a localized hydrogen hub in the Los Angeles Basin in Phase One;
- 4) SoCalGas shall conduct quarterly meetings with stakeholders to address impacts to affected interest groups, including disadvantaged and environmental justice communities, ratepayer advocacy groups, and unions;
- 5) SoCalGas may not record any costs for outreach and public relations activities in the Angeles Link Memo Account in Phase One; and
- 6) SoCalGas shall provide quarterly reports to the Commission to provide an update on the progress of the feasibility studies and the Project and to report on any preliminary results and findings.

**9.1. A Cap of \$26 Million for Only Phase One Activities**

SoCalGas estimates Phase One to cost \$26 million, Phase Two to cost \$92 million and Phase Three to be as much as several hundreds of millions of dollars, depending on the length and complexity of the preferred option identified in Phase One and Two.<sup>63</sup>

The high estimated costs of the Project concerned many intervenors, especially Phase Three's uncertain and wide range of estimate costs. Many of the intervenors recommend imposing a limit on the costs allowed to be recorded in the Memo Account.<sup>64</sup> The proposals range from limiting approval to Phase One costs, Phase One and Two costs, a limited amount of Phase One costs, or some combination of these recommendations. Pointing to the many uncertainties of

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<sup>63</sup> SoCalGas Application at 25-28.

<sup>64</sup> EDF Opening Brief at 4; Cal Advocates Opening Brief at 26-28; TURN Opening Brief at 2; Indicated Shippers Opening Brief at 33-34; Sierra Club/CEJA Opening Brief at 17-26; Clean Energy Opening Brief at 31-32.

the Project, Cal Advocates and EDF propose capping the Memo Account to \$26 million for Phase One activities.<sup>65</sup> SoCalGas opposes any form of cost cap because it may force SoCalGas to prematurely stop Project activities to remain within the cap even if those activities are reasonable.<sup>66</sup> SoCalGas argues that, because all costs are subjected to a cost reasonableness review in a future cost recovery proceeding, a cap is not necessary.

In considering whether a cost cap is appropriate, we share TURN's concerns that memorandum account treatment may fall outside of the cost control measures inherent in our cost-of-service ratemaking model.<sup>67</sup> UCAN, Sierra Club and CEJA also share similar concerns.<sup>68</sup> Therefore, we find that an added cost control measure in the form of a cost cap is reasonable to provide ratepayers an extra layer of protection, which is particularly needed given the high estimated costs of the Project.

In determining an appropriate cost cap, we find EDF's and Cal Advocates' proposal to be most convincing, which is to cap the allowable costs that may be recorded at the estimated Phase One costs, or \$26 million, since we grant the Memo Account primarily for SoCalGas to pursue feasibility studies planned for Phase One. While SoCalGas has defined activities and estimated costs for Phase One, Phase Two and Phase Three costs are speculative at this time, because costs and activities for these phases will depend on findings and results from Phase

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<sup>65</sup> Cal Advocates Opening Brief at 27.

<sup>66</sup> SoCalGas Opening Brief at 44-48.

<sup>67</sup> TURN Opening Brief at 5.

<sup>68</sup> UCAN Reply Brief at 5-6; Sierra Club/California Environmental Justice Alliance Reply Brief at 2-3.

One activities. We therefore find it reasonable to limit the Memo Account to Phase One and impose a cost cap of \$26 million for Phase One activities.

We recognize SoCalGas' concerns that it may need spending flexibility to achieve Phase One objectives, particularly given that historically high inflation may significantly increase costs in the immediate future.<sup>69</sup> Therefore, we find it reasonable to allow SoCalGas to file a Tier 2 advice letter with the Commission's Energy Division to increase the cap by up to 15% if the total amount of recorded costs is within 10% of the cost cap and SoCalGas can demonstrate that such an increase is needed to complete the feasibility studies in Phase One.

## **9.2. Feasibility Study Costs Can Only be Recorded if the Project Is Limited to Transporting Clean Hydrogen**

SoCalGas states that the Angeles Link Project, if approved for construction, would only deliver green hydrogen and recognizes the CEC's definition of green hydrogen as "hydrogen produced through electrolysis using renewable energy."<sup>70</sup> Some of the intervenors express concern that the Project would transport hydrogen that may not be derived from clean energy sources, and request that the Commission define "green" hydrogen to ensure that the Project aligns with decarbonization and clean energy goals.<sup>71</sup> Sierra Club and CEJA also raise concerns that the hydrogen carried in the Angeles Link would be blended with methane natural gas, and that the hydrogen delivered through the Project

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<sup>69</sup> Bureau of Labor Statistics, U.S. Department of Labor, The Economics Daily, Consumer prices for shelter up 6.6 percent for year ended September 2022 at <https://www.bls.gov/opub/ted/2022/consumer-prices-for-shelter-up-6-6-percent-for-year-ended-september-2022.htm> (visited October 27, 2022).

<sup>70</sup> Application 2, Footnote 2. See California Energy Commission, Draft 2021 Integrated Energy Policy Report, CEC-100-2021-001-V3 (Jan. 2022), Vol. III, p. 66.

<sup>71</sup> Sierra Club/CEJA Opening Brief at 21-23, EDF Opening Brief at 12, TURN Opening Brief at 20-21.

would include production pathways that emit pollution, particularly into California communities.<sup>72</sup> In response to these concerns, SoCalGas affirms that the Project will not be transporting blended hydrogen gas but will transport only 100% green hydrogen gas.

To ensure that ratepayer funded activities align with the public policy goals, we find it reasonable to only allow costs to be recorded if the feasibility studies are restricted to studying the transport of only clean hydrogen. Because we grant the Angeles Link Memo Account in part to attract federal funding for the development of regional clean hydrogen hubs, we find it appropriate to align our definition of clean hydrogen with federal statute. In 42 USC 16166, “clean hydrogen” is defined as hydrogen produced with a carbon intensity equal to or less than two kilograms of carbon dioxide-equivalent produced at the site of production per kilogram of hydrogen produced. This definition is further refined by the Inflation Reduction Act for the purpose of determining hydrogen production incentives to mean hydrogen that does not exceed four kilograms of carbon dioxide-equivalent produced on a lifecycle basis per kilogram of hydrogen produced.<sup>73</sup> As such, to ensure consistency with federal hydrogen production incentives while also ensuring a clean standard, we will only allow SoCalGas to record costs if the Project restricts any future hydrogen transported in the Angeles Link Project to not exceed a standard of four kilograms of carbon dioxide-equivalent produced on a lifecycle basis per kilogram of hydrogen produced. To remain consistent with the desire of parties to use only renewable resources in the production of any hydrogen used, we further restrict the

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<sup>72</sup> Sierra Club/CEJA Opening Brief at 17-18 and 21-23.

<sup>73</sup> Inflation Reduction Act, Section 45V(b)(2)(A)(i-ii).

eligibility of any future hydrogen which uses any fossil fuel in its production process.<sup>74,75</sup> This is an interim definition and the subject of other Commission proceedings and the California Air Resource Board's implementation of AB 1075 (Skinner, 2022).

We recognize that the definition of "green" hydrogen, "clean" hydrogen, or "renewable" hydrogen may evolve over time, as evolving technologies may allow hydrogen to be more carbon-free, less resource intensive, or more widely accessible or affordable. For example, this issue is currently being addressed in Order Instituting Ratemaking (R.)13-02-008 (Biomethane Standards and Requirements and Pipeline Open Access Rules Order Instituting Ratemaking). In any future application related to the Angeles Link Project, SoCalGas shall include the current Commission adopted definition.

### **9.3. A Localized Hydrogen Hub in the Los Angeles Basin**

As part of Phase One, SoCalGas must study the feasibility of a localized clean hydrogen hub solution located in the Los Angeles Basin, with hydrogen generation and end users in close proximity.

EDF proposes limiting the Project to a hydrogen hub model, because the federal IIJA funding is purposed for regional hydrogen hubs.<sup>76</sup> EDF explains that the IIJA defines clean hydrogen hubs as "networks of clean hydrogen producers, potential clean hydrogen consumers, and connective infrastructure

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<sup>74</sup> Public Utilities Code Section 2806 defines "fossil fuel" as "a mixture of hydrocarbons including coal, petroleum, or natural gas, occurring in and extracted from underground deposits."

<sup>75</sup> The prohibition on the use of fossil fuel does not apply to an eligible renewable energy resource that uses a de minimis quantity of fossil fuel, as allowed under Public Utilities Code Section 399.12 (h)(3).

<sup>76</sup> EDF Opening Brief at 14-16.

located in close proximity.”<sup>77</sup> EDF states that the Project, as currently proposed by SoCalGas, is not a localized hydrogen production project. EDF proposes redirecting the Project to being a localized hydrogen hub solution so that the Project is aligned with the specifications provided in the IIJA for federal funding.

The IIJA is funding localized hydrogen hubs that would have local networks of producers and consumers in close proximity. We do not agree that Phase One activities should be limited to Los Angeles Basin but to ensure that the Angeles Link Project is eligible to receive the federal funding provided through the IIJA, SoCalGas should study a localized clean hydrogen hub within its authorized activities. As discussed above, we grant the Angeles Link Memo Account, because of the extraordinary public interest benefits the Project may bring, which include helping to position California to receive the federal funding provided through the IIJA. Therefore, SoCalGas should study a localized hydrogen hub solution as part of Phase One to ensure that the Angeles Link Project is aligned with the conditions set for the federal funding provided through the IIJA.

#### **9.4. Stakeholders and Public Engagement to Address Affected Interests, Including Impacts to Disadvantaged and Environmental Justice Communities**

A broad range of stakeholders representing different interests are interested in the development and study of the Angeles Link Project, including potential end users, potential suppliers, environmental and environmental justice community groups, ratepayer advocacy groups, union organizations, state agencies, and others. SoCalGas proposes to engage the stakeholders by inviting

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<sup>77</sup> EDF Opening Brief at 14.

them to join a Planning Advisory Group for technical advice and collaboration on Project design and development. According to SoCalGas, stakeholder engagement process allows for discussion of important issues and concerns, including environmental justice issues, workforce development, sources of green hydrogen and water, potential pipeline scenarios and routes, and any proposals from the Commission's Energy Division.<sup>78</sup> SoCalGas also plans on engaging stakeholders through quarterly public webinars, townhalls, and workshops to gather feedback on Project planning, design, and development. SoCalGas has committed to consider stakeholder feedback through an iterative assessment and planning process.<sup>79</sup>

Parties generally agree that stakeholder engagement is beneficial,<sup>80</sup> although some disagree as to whether these costs should be recoverable.<sup>81</sup> NRDC states that extensive stakeholder engagement is vital for considering any equity and environmental justice impacts from the Project, and recommends that SoCalGas invest in meaningful, robust, and proactive engagement with a diverse set of stakeholders including local community groups.<sup>82</sup> UWUA appreciates allowing stakeholders to engage with the development of the Project analysis and planning.<sup>83</sup>

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<sup>78</sup> SoCalGas Opening Brief at 53-54.

<sup>79</sup> *Ibid.*

<sup>80</sup> GHC Opening Brief at 1-2; UWUA Opening Brief at 14-15; CUE Opening Brief at 7, 9-11; NRDC Opening Brief at 1, 6-8.

<sup>81</sup> Air Products at Opening Brief 23-24; TURN Opening Brief at 18; Clean Energy Opening Brief at 22-23; UCAN Opening Brief at 16; Sierra Club/CEJA Opening Brief at 24-25; Indicated Shippers Opening Brief at 25-28; EDF Opening Brief at 28; PCF Reply Brief at 8, 14-15; Cal Advocates Opening Brief at 5.

<sup>82</sup> NRDC Opening Brief at 6-7.

<sup>83</sup> UWUA Opening Brief at 14.

We find that stakeholder engagement is crucial to address a broad range of diverse community interests that would be affected by the Project, including environmental justice community groups, ratepayer advocacy groups, union organizations, state agencies, and others. Most importantly, active stakeholder engagement is important in addressing potential impacts of the Project on disadvantaged and environmental justice communities, particularly at this early stage of the Project. SoCalGas' commitment to an iterative stakeholder feedback process is beneficial for the development of the Project.

SoCalGas should conduct meaningful stakeholder engagement meetings at least quarterly, with affected interest groups including but not limited to disadvantaged and environmental justice communities, ratepayer advocacy groups, union organizations, state agencies. It is therefore appropriate for stakeholder engagement costs to be recorded in the Memo Account.

#### **9.5. Public Outreach and Public Relations Costs**

In its Application, SoCalGas states that it intends to include in the Memo Account the costs of public outreach and public relations initiatives.<sup>84</sup> SoCalGas plans to hold periodic public workshops, which are different from the Planning Advisory Group stakeholder meetings.<sup>85</sup> EDF, Sierra Club, CEJA, and Cal Advocates oppose allowing SoCalGas to record costs for public outreach and public relations, arguing that they are inappropriate for cost recovery.<sup>86</sup> Sierra Club and CEJA specifically request that the Commission explicitly exclude costs associated with influencing the public, local officials, or legislators on the Project

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<sup>84</sup> Application at 2 and 27-28.

<sup>85</sup> SoCalGas Opening Brief at 56 and 59.

<sup>86</sup> Sierra Club and CEJA Opening Brief at 24-26; EDF Opening Brief at 26-28; Cal Advocates Reply Brief at 13.



and Memo Account.<sup>87</sup> In its Reply Brief, SoCalGas explains that all public outreach and engagement costs are tracked in accordance with established Commission and Federal Energy Regulatory Commission (FERC) accounting requirements.<sup>88</sup>

Because the main objective of Phase One is to conduct a feasibility study of the Project, SoCalGas will not need to conduct public outreach in Phase One beyond its stakeholder engagement activities discussed above. Therefore, for Phase One, SoCalGas shall not record any public outreach costs. In addition, we find that activities related to engaging with public officials or legislators are not beneficial to ratepayers, and are therefore prohibited from being recorded into the Memo Account in any phase of the Project.

#### **9.6. Reporting to the Commission**

SoCalGas plans to provide the Commission with interim reports regarding the Project status and updates.<sup>89</sup> We find regular reporting and progress updates of the Angeles Link Project to be beneficial to the Commission, stakeholders, and other interested parties. Therefore, SoCalGas should submit to the Commission's Deputy Executive Director for Energy and Climate Policy quarterly reports to provide an update on the progress of the feasibility studies and the Project and to report on any preliminary results and findings, and serve these reports to the parties in this proceeding.

#### **10. Additional Reasonableness Standards**

As set forth in the Scoping Memo, the fourth issue to be determined in this proceeding states:

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<sup>87</sup> Sierra Club and CEJA Opening Brief at 24-26.

<sup>88</sup> SoCalGas Reply Brief at 41-42.

<sup>89</sup> SoCalGas Opening at 54-55.

If the requested memorandum account meets the standards of approval, should the Commission require the following questions to be answered in any request for cost recovery to provide a foundation for minimal standards of reasonableness? Are there other questions not identified below that must be answered in any request for cost recovery to provide a foundation for minimal standards of reasonableness?

- a. How did the planning process consider the impacts to disadvantaged communities and address environmental justice and affordability concerns in the development of the Project?
- b. How did the planning process consider California environmental law and policies in the development of the Project?
- c. How did the planning process gather and address stakeholder concerns, such as source of green hydrogen and water, and the routes of the pipelines, including any proposals from Commission's Energy Division, in the process of developing its Project?

SoCalGas asserts that including any minimal standards of reasonableness is unnecessary, is unprecedented and serves no purpose.<sup>90</sup> SoCalGas states that it has the burden of proving reasonableness by maintaining detailed records of how costs are tracked. While a detailed accounting of costs, as SoCalGas discussed above, is absolutely necessary to demonstrate cost reasonableness, detailed accounting alone is not sufficient to demonstrate that these costs were incurred prudently and reasonably.

The intervening parties, except CUE, generally agree with or do not oppose including the three questions in the Scoping Memo as additional

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<sup>90</sup> SoCalGas Opening Brief at 48-51.

standards of reasonableness SoCalGas must meet as a minimum threshold when requesting recovery of the costs recorded in the Memo Account.<sup>91</sup>

We find it reasonable to set additional standards of reasonableness SoCalGas must meet before receiving recovery of any costs recorded in the Angeles Link Memo Account. Because the Angeles Link Project is in the conceptual stage, there are many uncertainties over how the Project will develop and whether the Project will deliver the promised decarbonization and clean energy benefits and align with the Commission's public policy goals. For these reasons, it is appropriate to set additional standards of reasonableness as an extra layer of ratepayer protection and to ensure that the Project aligns with the Commission's public policy goals.

We include the questions posed in the Scoping Memo but with the slight modifications proposed by EDF.<sup>92</sup> Based on EDF's recommendation, we add one additional standard, which is whether SoCalGas considered and evaluated various Project alternatives including a localized hydrogen hub solution and other decarbonization alternatives such electrification.<sup>93</sup>

Parties have raised other areas of concerns, such as water and hydrogen sources, identification of end uses and demand, cost-effectiveness, routes and configurations, safety planning including risks of hydrogen leakage. We find that these are important issues for which SoCalGas is trying to find answers for through the Phase One feasibility studies. But answers to those questions do not determine whether SoCalGas reasonably incurred the costs of conducting Phase One feasibility studies and should not be part of the minimum standards

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<sup>91</sup> CUE Opening Brief at 12.

<sup>92</sup> EDF Opening Brief at 28-30.

<sup>93</sup> EDF Opening Brief at 28.

SoCalGas must meet to demonstrate for Phase One of the Angeles Link Memo Account.

We direct SoCalGas to demonstrate meeting, at a minimum, the following additional standards of reasonableness to receive recovery of Phase One costs recorded in the Angeles Link Memo Account.

- 1) How did the planning process address affordability concerns in the development of the Project?
- 2) How did the planning process consider the impacts to disadvantaged communities and address environmental justice concerns in the development of the Project?
- 3) How did the planning process consider California environmental law and public policies in the development of the Project?
- 4) How did the planning process gather and address stakeholder concerns?
- 5) How did the planning process consider and evaluate Project alternatives, including a localized hydrogen hub or other decarbonization options such as electrification, their costs and their environmental impacts?

To receive recovery of the Phase One costs recorded in the Angeles Link Memo Account, SoCalGas shall file for recovery of these costs in a separate application, demonstrating that the costs and activities recorded in the account meet, at a minimum, the additional standards of reasonableness set forth above in this decision.

#### **11. Recording Phase Two Costs**

Before SoCalGas can begin recording costs in the Angeles Link Memo Account for activities in Phase Two, SoCalGas shall file a separate application to request this authority. In the application requesting authority to record Phase Two costs, SoCalGas shall provide the findings and results from the Phase One feasibility studies, including any analyses, on the following issues of concern:

- 1) Identification of the demand and end uses for the Project;
- 2) Identification of the potential sources of hydrogen generation and water and estimating the costs of the hydrogen;
- 3) Identification of the ratepayers who would be end-users, including current natural gas customers and future customers;
- 4) Evaluation of the cost-effectiveness of the Project against alternatives, which should include a localized hydrogen hub or electrification option, and determining the methodology to measure cost-effectiveness between the alternatives;
- 5) Workforce planning and training;
- 6) Evaluations of safety concerns involved in pipeline transmission, storage, and transportation;
- 7) Assessments of the risks and mitigations for hydrogen leakage;
- 8) Assessments of NOx emissions resulting from the Project, including appropriate controls to mitigate NOx emissions;
- 9) Identification and comparison of possible routes and configurations;
- 10) Plans to ensure hydrogen gas meets the clean hydrogen standards set in this decision;
- 11) Plans for addressing and mitigating affordability concerns;
- 12) Plans for addressing and mitigating impacts to disadvantaged communities and other environmental justice concerns;
- 13) Plans to share data from the Phase One Studies with stakeholders;
- 14) Compliance with California environmental law and public policies; and
- 15) Consistency with other Commission decisions, policies, and directives, as appropriate, including R.20-01-007 (Long-Term Gas Planning Order Instituting Ratemaking)

and R.13-02-008 (Biomethane Standards and Requirements and Pipeline Open Access Rules Order Instituting Ratemaking);

- 16) Efforts and progress in partnering with the State of California on its application for federal funding provided through the IIJA.

The above issues were areas of concern intervenors raise in protests and briefs. These topics are important and highlight the questions the Phase One feasibility studies should answer, because the answers to these questions are needed in order for the Commission to evaluate whether it is reasonable for the Angeles Link Project to progress to Phase Two. We, therefore, direct SoCalGas to present these required findings as set forth above from its Phase One studies in its application requesting approval to record Phase Two costs.

## **12. Cost Recovery Issues**

Intervenors are concerned that the Angeles Link Memo Account would cause all SoCalGas gas ratepayers to pay for and subsidize a clean hydrogen energy system they do not use.<sup>94</sup> SoCalGas insists that cost recovery issues, such as determining the set of ratepayers that should pay for the Angeles Link Memo Account, are more appropriately addressed in a future cost recovery application.<sup>95</sup>

We determine that cost recovery issues are more appropriately addressed when SoCalGas files an application for cost recovery. While, as discussed below, we will not address cost recovery issues until SoCalGas requests for recovery, we note that the Commission generally adopts the cost-causation principle when

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<sup>94</sup> Indicated Shippers Opening Brief at 28; Sierra Club/CEJA Opening Brief at 4-5; Cal Advocates Reply Brief at 21-22.

<sup>95</sup> SoCalGas Reply to Protests and Responses at 4.

determining cost recovery, under which costs are recovered from the specific set of ratepayers on whose behalf the utility incurs the costs.<sup>96</sup> For purposes of determining cost responsibilities, we specifically identify that the beneficiaries of Phase One activities are 1) the existing ratepayers who could potentially take service of the hydrogen gas from Angeles Link Project as a source of carbon-free energy and 2) future customers taking service from the Angeles Link Project. These are the ratepayers on whose behalf SoCalGas will be performing the feasibility studies, and are therefore the direct beneficiaries of the Phase One studies. We also note that beneficiaries of Phase One activities may be different from beneficiaries of Phase Two or Phase Three activities.

### **13. Implementation**

Within 60 days of the effective date of this decision, SoCalGas may file a Tier 2 Advice Letter with the Commission's Energy Division to establish the Angeles Link Memorandum Account, which should include a sub-account to record Phase One costs and activities.

### **14. Comments on Proposed Decision**

The proposed decision of ALJ Elaine Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

### **15. Assignment of Proceeding**

Clifford Rechtschaffen is the assigned Commissioner and Elaine Lau is the assigned Administrative Law Judge in this proceeding.

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<sup>96</sup> D.14-06-029 at 12.

**Findings of Fact**

1. The Angeles Link Project has the potential to bring public interest benefits to the state and especially the Los Angeles area, because clean hydrogen holds promise to decarbonize the state's and the Los Angeles Basin's energy use and bring economic opportunities and new jobs to the Los Angeles region.

2. The findings from numerous studies demonstrate that clean hydrogen is a potential solution to help decarbonize the state's and the Los Angeles Basin's energy use because it is one of the only few viable carbon-free energy alternative for hard-to-electrify industries, electric generation, and the heavy-duty transportation sector.

3. Investing in the Angeles Link Project serves the public interest by potentially bringing hydrogen at scale to lower the costs of hydrogen and creating economic opportunities and new jobs.

4. Addressing the issue of jurisdiction may require examining facts that are not yet determined.

5. SoCalGas' proposed Planning Advisory Group would engage with stakeholders to receive technical advice and collaboration on Project design and development.

6. SoCalGas commitment to engage and consult with stakeholders representing a diverse set of interests serves the public interest, because it not only provides transparency of the planning process, but also ensures that all interests affected by the Project are considered in the planning process.

7. The data and analyses that SoCalGas plans to share with stakeholders resulting from its Phase One studies should be beneficial to the development of the clean hydrogen industry and thus serve the public interest.



8. The confluence of current events, including recent federal statutes, regional initiatives, and local interests, favors SoCalGas to begin studying the feasibility of the Angeles Link Project.

9. The IIJA provides \$8 billion dollars in funding for the development of four regional clean hydrogen hubs.

10. The Angeles Link Project could help position California to receive federal funding provided through the IIJA, which may help offset some of the costs for the Angeles Link Project.

11. There are significant regional and local interests in developing and creating pathways to provide hydrogen as an alternative clean energy source in the Los Angeles Basin.

12. Given the confluence of current events, including recent federal statutes, regional initiatives, and local interests, public interest is served if SoCalGas begins conducting feasibility studies of the Angeles Link Project immediately.

13. The Commission's Standard Practice U-27-W provides criteria for memorandum account approval, which are 1) whether the expenses are caused by an exceptional event that is unforeseen and outside of the control of the utility, 2) whether the expenses could not have been included in the GRC forecast, 3) whether the costs will occur before the utility's next GRC, 4) whether the expenses are substantial, and 5) whether ratepayers benefit by the memorandum account treatment.

14. The Angeles Link Memo Account does not meet one of the criteria set in Standard Practice U-27-W for memorandum account approval.

15. The expenses that would be recorded in Phase One of the Angeles Link Memo Account are not caused by an exceptional event that SoCalGas could not

foresee and which is outside of the utility's control. Therefore, an exceptional event, as defined in Standard Practice U-27-W, does not exist.

16. The Angeles Link Memo Account may benefit ratepayers who can potentially take service of the clean hydrogen provided by the Angeles Link Project and receive a clean energy alternative.

17. Based on existing customer data and initial research on hydrogen fuel-switching capabilities, SoCalGas estimates that the ratepayers who may potentially take service of the clean hydrogen as a substitute for natural gas include some core industrial customers and core natural gas vehicle customers, and as much as 50% of its current retail non-core customers.

18. The costs that may be recorded in the Angeles Link Memo Account, which are limited to Phase One activities and capped at \$26 million, are substantial.

19. The costs that may be recorded in the Angeles Link Memo Account, which are limited to Phase One activities and capped at \$26 million, are not speculative, because SoCalGas has specific and defined tasks, activities, and goals it plans to accomplish in Phase One.

20. Even if the Angeles Link Memo Account is granted, the recorded costs are not guaranteed for recovery.

21. SoCalGas could not have included the Project in its previous 2019 GRC because it was not contemplating the Project when it filed its 2019 GRC.

22. The Angeles Link Project involves policy considerations beyond the policy considerations typically considered in a GRC.

23. The magnitude of the Angeles Link Project, policy considerations for the Angeles Link Project, and significant interests on the Angeles Link Project from parties representing diverse interests make it appropriate for the Commission to consider the Angeles Link Project in its own separate proceeding.

24. At this early stage of Angeles Link Project in which the feasibility studies have not been conducted and when many of the project details are undetermined, it would have been challenging for SoCalGas to provide an accurate forecast of expenses for the forecast time frame considered in the 2024 GRC, specifically for the years 2024 to 2028.

25. At this early stage of the Project, active stakeholder engagement is beneficial because it can help identify and address potential impacts of the Project on disadvantaged and environmental justice communities.

26. SoCalGas commits to engage disadvantaged and environmental justice communities throughout the development of the Angeles Link Project to address the Project's potential impacts to these communities.

27. Granting the Angeles Link Memo Account does not undermine market competition in the currently developing hydrogen industry because the memorandum account only allows SoCalGas to record Phase One costs to conduct feasibility studies of the Project.

28. The Commission's cost causation principle in setting rates limits any significant risk that cross-subsidy of costs would give SoCalGas unfair market advantage in the clean hydrogen industry.

29. Because the Angeles Link Project is in the conceptual stage, there is uncertainty about how the Project will develop and whether the Project will the promised decarbonization and clean energy benefits.

30. Imposing additional conditions on the costs allowed to be recorded in the Angeles Link Memo Account provides an extra layer of ratepayer protection and ensures that the Angeles Link Project aligns with the State's decarbonization and clean energy goals.

31. Allowing costs to be recorded only if the feasibility studies are restricted to studying the transport of clean hydrogen ensures that ratepayer funded activities align with the public policy goals.

32. Because we grant the Angeles Link Memo Account in part to attract federal funding for the development of regional clean hydrogen hubs, it is appropriate to align our definition of clean hydrogen with federal statute.

33. In 42 USC 16166, “clean hydrogen” is defined as hydrogen produced with a carbon intensity equal to or less than two kilograms of carbon dioxide-equivalent produced at the site of production per kilogram of hydrogen produced. This definition is further refined by the Inflation Reduction Act for the purpose of determining hydrogen production incentives to mean hydrogen that does not exceed four kilograms of carbon dioxide-equivalent produced on a lifecycle basis per kilogram of hydrogen produced.

34. To ensure consistency with federal hydrogen production incentives while also ensuring a clean standard, it is reasonable to only allow costs to be recorded if the Project is restricted to only transport hydrogen that does not exceed a standard of four kilograms of carbon dioxide-equivalent produced on a lifecycle basis per kilogram of hydrogen produced.

35. To ensure that potential clean energy benefits of the Project are realized, it is reasonable to only allow costs to be recorded if the Project is restricted to only transport hydrogen that does not use any fossil fuel in its production process.

36. The definition of “green” hydrogen, or “clean” hydrogen, or “renewable” hydrogen may evolve over time, as evolving technologies may allow hydrogen to be more carbon-free, less resource intensive, or more widely assessable or affordable.

37. Setting the cap at the estimated Phase One costs, or \$26 million, is appropriate because the Memo Account is granted primarily for SoCalGas to pursue feasibility studies planned for Phase One.

38. SoCalGas may need spending flexibility to achieve Phase One objectives, particularly given that historically high inflation may significantly increase costs in the immediate future.

39. Stakeholder engagement is crucial to address a broad range of diverse community interests that would be affected by the Project, including environmental justice community groups, ratepayer advocacy groups, union organizations, state agencies, and others.

40. Because the main objective of Phase One is to conduct a feasibility study of the Angeles Link Project, SoCalGas will not need to conduct public outreach in Phase One beyond the planned stakeholder engagement activities.

41. Activities related to engaging with the public officials or legislators are not beneficial to ratepayers and to the Project development.

42. Regular reporting and progress updates on the feasibility studies of the Angeles Link Project are beneficial to the Commission, stakeholders, and other interested parties.

43. Setting minimum standards of reasonableness that will be applied when reviewing costs recorded in the Angeles Link Memo Account gives ratepayers an extra layer of protection and ensures that the Project will align with the Commission's public policy goals.

44. There are a number of findings that the Phase One feasibility studies need to provide in order for the Commission to evaluate whether the Angeles Link Project should progress to Phase Two.

45. Cost recovery issues are more appropriately addressed when SoCalGas files an application for cost recovery.

46. The direct beneficiaries of Phase One activities are 1) the existing ratepayers who can potentially take service of the hydrogen gas from Angeles Link Project as an alternative source of carbon-free energy and 2) future customers taking service from the Angeles Link Project.

### **Conclusions of Law**

1. SoCalGas should establish the Angeles Link Memo Account to record the costs of performing feasibility studies for the Angeles Link Project in Phase One to support the development of a clean hydrogen delivery system serving the Los Angeles Basin.

2. Because the Angeles Link Project is still in the development and planning stages, and Project details are not yet established, it is premature to determine today whether the Project falls within the Commission's jurisdiction.

3. SoCalGas assumes all risks that costs recorded in the Angeles Link Memo Account authorized by today's decision are not recoverable if Commission jurisdiction cannot be established, regardless of whether SoCalGas has made a good faith effort in establishing the Project to serve as a public utility facility.

4. Because of the significant public interest benefits the Angeles Link Project can potentially bring to the Los Angeles Basin and the state, the public interest is served if SoCalGas studies whether the Angeles Link Project is feasible and viable.

5. The Commission is not bound by the criteria set in its Standard Practice U-27-W and has the discretion to approve a memorandum account that does not meet all of the criteria.

6. Because the Angeles Link Project has the potential to bring public interest benefits and decarbonize the State's energy use, it is reasonable to authorize the Angeles Link Memo Account.

7. The costs to be recorded in the Angeles Link Memo Account could not be forecasted in SoCalGas' previous GRC and should not be included in SoCalGas' current GRC. The Angeles Link Memo Account should be appropriately reviewed and approved in a standalone proceeding such as this one and not in a GRC.

8. Approving the Memo Account does not undermine market competition in the clean hydrogen industry.

9. SoCalGas should engage with disadvantaged and environmental justice communities through the stakeholder engagement process on a quarterly basis to address any potential impacts the Project has on these communities.

10. Because of the importance of the federal funding opportunity to the public interest, SoCalGas should partner with the State of California in its application for the federal funding provided through the IIJA prior to receiving authority to record any Phase Two costs.

11. It is reasonable to impose additional conditions on the costs that are allowed to be recorded in the Angeles Link Memo Account.

12. It is reasonable to only allow recording of costs if the feasibility studies are restricted to studying the transport of clean hydrogen.

13. A cost cap of \$26 million should be placed on Phase One costs as a cost control measure and to provide ratepayers with an extra layer of protection.

14. It is reasonable to allow SoCalGas to file a Tier 2 advice letter with Commission's Energy Division to increase the cap by up to 15% if the total

amount of recorded costs is within 10% of the cost cap and SoCalGas can demonstrate that such an increase is needed to complete the feasibility studies in Phase One.

15. SoCalGas should study a localized hydrogen hub solution as part of Phase One.

16. SoCalGas should conduct quarterly stakeholder engagement with affected interest groups.

17. SoCalGas should submit to the Commission's Deputy Executive Director for Energy and Climate Policy quarterly reports to provide an update on the progress of the Angeles Link Project and the Phase One activities, and to report on any preliminary results and findings, and should serve these reports on the service list in this proceeding.

18. It is reasonable for SoCalGas to record stakeholder engagement costs in the Angeles Link Memo Account.

19. SoCalGas should be prohibited from recording any public outreach costs in the Angeles Link Memo Account during Phase One.

20. SoCalGas should be prohibited from recording costs related to engaging with public officials or legislators in the Memo Account.

21. While a detailed accounting of costs is absolutely necessary to demonstrate cost reasonableness, detailed accounting alone is not sufficient to demonstrate that costs were incurred prudently and reasonably.

22. It is reasonable to set minimum standards of reasonableness that SoCalGas must demonstrate meeting before receiving recovery of any costs recorded in the Angeles Link Memo Account.



23. In any application SoCalGas files to request authority to record Phase Two costs, SoCalGas should present the required findings from its Phase One studies in that application.

24. This proceeding should be closed.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Gas Company's (SoCalGas) application for authority to establish the Angeles Link Memorandum Account is granted insofar as SoCalGas is granted authority to record the costs of performing feasibility studies for the Angeles Link Project up to a cap of \$26 million, and subject to the conditions set forth in Ordering Paragraphs 2-4 below.

2. Within 60 days of the effective date of this decision, Southern California Gas Company (SoCalGas) may file a Tier 2 Advice Letter with the Commission's Energy Division to establish the Angeles Link Memorandum Account, including a sub-account to record Phase One costs and activities. In Phase One, SoCalGas may record costs to conduct feasibility studies for the Angeles Link Project, which is to develop a clean hydrogen energy transport system serving the Los Angeles Basin.

3. The costs of the activities recorded in the Angeles Link Memorandum Account, for which Southern California Gas Company (SoCalGas) may seek future recovery, shall be subject to the following conditions:

- (a) Feasibility studies for the Angeles Link Project shall be restricted to the service of clean hydrogen that is produced with a carbon intensity equal to or less than four kilograms of carbon dioxide-equivalent produced on a lifecycle basis per kilogram and does not use any fossil fuel in its production process.

- (b) The costs to be recorded shall be limited to Phase One activities and cannot exceed a cap of \$26 million.
- (c) SoCalGas shall study a localized hydrogen hub solution, under the specifications required to be eligible for federal funding provided through the Infrastructure Investment and Jobs Act, as part of Phase One.
- (d) SoCalGas shall partner with the State of California in its application for the federal funding provided through the IIJA prior to receiving authority to record any Phase Two costs.
- (e) SoCalGas shall conduct quarterly stakeholder engagement meetings.
- (f) SoCalGas is prohibited from recording any public outreach costs in Phase One.
- (g) SoCalGas is prohibited from recording costs for activities related to engaging with public officials or legislators in any phase of the Project.
- (h) SoCalGas shall submit to the Commission's Deputy Executive Director for Energy and Climate Policy quarterly reports to provide an update of the Angeles Link Project and the feasibility studies, and to report on any preliminary results and findings. SoCalGas shall serve these reports on the service list of this proceeding.

4. Southern California Gas Company (SoCalGas) may file a Tier 2 Advice Letter with the Commission's Energy Division to increase the cap established in Ordering Paragraph 3(b) by up to 15% if the total amount of recorded costs is within 10% of the cost cap and SoCalGas can demonstrate that such an increase is needed to complete the feasibility studies in Phase One.

5. In order to request authority to recover the Phase One costs recorded in the Angeles Link Memo Account, Southern California Gas Company shall file an application. In the application, Southern California Gas Company shall

demonstrate how the recorded costs and activities meet, at a minimum, the following standards of reasonableness:

- (a) How did the planning process address affordability concerns in the development of the Project?
- (b) How did the planning process consider the impacts to disadvantaged communities and address environmental justice concerns in the development of the Project?
- (c) How did the planning process consider California environmental law and public policies in the development of the Project?
- (d) How did the planning process gather and address stakeholder concerns?
- (e) How did the planning process consider and evaluate Project alternatives, including a localized hydrogen hub or other decarbonization options such as electrification, their costs and their environmental impacts?

6. If it chooses to request Commission authority to record costs for Phase Two activities in the Angeles Link Memo Account, Southern California Gas Company (SoCalGas) shall file an application requesting such authority. In the application, SoCalGas shall provide the following required findings from its Phase One feasibility studies:

- (a) Identification of the demand and end uses for the Angeles Link Project (Project);
- (b) Identification of the potential sources of hydrogen generation and water and estimating the costs of the hydrogen;
- (c) Identification of the ratepayers who would be end-users, including current natural gas customers and future customers;
- (d) Evaluation of the cost-effectiveness of the Project against alternatives, which should include a localized hydrogen hub or electrification option, and determining the

methodology to measure cost-effectiveness between the alternatives;

- (e) Workforce planning and training;
- (f) Evaluations of safety concerns involved in pipeline transmission, storage, and transportation;
- (g) Assessments of the risks and mitigations for hydrogen leakage;
- (h) Assessments for possible nitrogen oxide emissions resulting from the Project, including mitigation measures to control nitrogen oxide emissions;
- (i) Identification and comparison of possible routes and configurations;
- (j) Plans to ensure hydrogen gas meets the clean hydrogen standards set in this decision;
- (k) Plans for addressing and mitigating affordability concerns;
- (l) Plans for addressing and mitigating impacts to disadvantaged communities and other environmental justice concerns;
- (m) Plans to share data from the Phase One Studies with stakeholders;
- (n) Compliance with California environmental law and public policies;
- (o) Consistency with other Commission decisions, policies, and directives, including Order Instituting Ratemaking (R.)20-01-007 (Long-Term Gas Planning Order Instituting Ratemaking) and R.13-02-008 (Biomethane Standards and Requirements and Pipeline Open Access Rules Order Instituting Ratemaking); and
- (p) Efforts and progress in partnering with the State of California on its application for federal funding provided through the Infrastructure Investment and Jobs Act.

7. Application 22-02-007 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.